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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

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In the Matter of

1997 Annual Access  
Tariff Filings

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CC Docket No. 97-149

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

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**DIRECT CASE OF SBC COMPANIES**

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## Table of Contents

### Direct Case of SBC Companies CC Docket No. 97-149

<u>Subject</u>	<u>Page</u>
Summary	i
I. <u>PROJECTED BFP REVENUE REQUIREMENTS.</u>	3
Paragraph 17	3
Paragraph 19	10
Paragraph 20	10
Paragraph 22	13
Paragraph 23	14
Paragraph 24	17
Paragraph 25	20
Paragraph 26	22
Paragraph 29	22
Paragraph 27	28
Paragraph 30	30
Paragraph 31	30
Paragraph 32	33
Paragraph 33	35
Paragraph 34	39
II. <u>THE SBC COMPANIES' REMOVAL OF EQUAL ACCESS EXOGENOUS COST CHANGES WAS CORRECT.</u>	40
Paragraph 42	40
Paragraph 43	43
III. <u>PACIFIC BELL'S OTHER BILLING AND COLLECTION EXOGENOUS COST INCREASES ARE CORRECT.</u>	43
Paragraph 50	43
Paragraph 51(a)	44
Paragraph 51(b)	44
Paragraph 51(c)	45
Paragraph 51(d)	46
Paragraph 51(e)	46
Paragraph 51(f)	47
Paragraph 51(g)	49
Paragraph 51(h)	49
Paragraph 51(i)	50
Paragraph 52(b)	51
Paragraph 55	52
Paragraph 56	53
Paragraph 59	53
IV. <u>CONCLUSION</u>	55

## SUMMARY\*

The Direct Case of the SBC Companies responds to the questions posed by the Commission on issues regarding common line costs and volumes, equal access exogenous cost changes, and other billing and collection expenses.

The responses given by the SBC Companies show that the SBC Companies projected BFP revenue requirements were reasonable, and that no changes to the SBC Companies' EUCL and CCL rates should be made.

Likewise, the SBC Companies respond fully to the Commission's questions regarding the removal of the amortized non-capitalized equal access expenses from the SBC Companies' rates. These responses explain that no change in the SBC Companies' rates due to this adjustment should be made.

Finally, the Direct Case explains that Pacific Bell's other billing and collection exogenous cost increases are correct. In responding to the questions posed by the Designation Order, Pacific Bell shows that no changes to its rates are warranted.

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\* All abbreviations used herein are referenced within the text.

**Before the  
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In the Matter of	)	
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1997 Annual Access	)	CC Docket No. 97-149
Tariff Filings	)	
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**DIRECT CASE OF THE SBC COMPANIES**

Southwestern Bell Telephone Company (SWBT), Pacific Bell (Pacific), and Nevada Bell (Nevada) (collectively, the SBC Companies), pursuant to the Designation Order<sup>1</sup> released July 28, 1997, hereby file their Direct Case. The Designation Order requires the SBC Companies and other carriers to file a Direct Case on issues regarding common line costs and volumes, equal access exogenous cost changes, and other billing and collection expenses.

The Commission requires LECs to prove that their BFP revenue requirement projections are just and reasonable even though the Commission acknowledges that it does not prescribe any particular forecasting methodology for BFP revenue requirements.<sup>2</sup> The Commission appears to favor using a trend of historical BFP costs to assess the reasonableness of LEC forecasts, since LECs are required to explain why their forecasts have deviated from historical trends.

The common line cost underforecasting issue is relevant only to the extent that a difference between actual and forecasted Base Factor Portion (BFP) costs and End User Common

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<sup>1</sup> 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Order Designating Issues for Investigation - Memorandum Opinion and Order on Reconsideration, (DA 97-1609) (rel. July 28, 1997, Com. Car. Bur.) (Designation Order). The filing dates were extended in Public Notice, Common Carrier Bureau Grants United States Telephone Association Petition for Extension of Time in 1997 Annual Access Tariff Filings (DA 97-1724) (rel. August 13, 1997).

<sup>2</sup> Designation Order at paras. 13-14.

Line (EUCL) demand resulted in EUCL and CCL rates that shifted the recovery of allowable Common Line basket price cap revenue from end users to switched access purchasers. This issue has now arisen because of the increase in the multiline EUCL cap from \$6.00 to to \$9.00. As shown for SWBT on Exhibit REVEFF, what appears to be significant differences between actual and forecasted BFP costs, actually resulted in minor revenue shifts (less than 1%) for all tariff years except one non-recent year where the difference was about 3% due to the existence of the \$3.50 single line and \$6.00 multiline caps. There simply has been no incentive to underestimate EUCL rates in annual filings since doing so actually reduced the total Common Line basket allowable revenue where a positive usage per line growth factor 'g' existed. To the extent the EUCL rates filed in the 1997 Annual Filing are required to be increased, CCL rates will be reduced by the full amount of the EUCL increase but the TIC rate will be increased to reflect the 'g' factor effect included in the TIC targeting, thereby resulting in a net revenue increase.

In any event, it is unreasonable to hold any deviations from forecasts against the LECs because forecasts are, by their nature, imperfect. As the Commission acknowledges in the Designation Order, historical trends can be impacted by one-time events such as separations rule changes and accounting changes. There can also be significant one-time expenditures incurred by LECs, such as storm damage, restructuring costs, and the like, that may prevent a smooth historical trend. Such events are often difficult, if not impossible, to predict. Consequently, a forecast will never be perfect.

I. PROJECTED BFP REVENUE REQUIREMENTS.

The Designation Order questioned the 1997-98 base factor portion (BFP) revenue requirement projections for the SBC Companies and the other price cap local exchange carriers (LECs). The Designation Order directs the price cap LECs to justify their BFP projections, and specifically to respond to the information requirements below. The SBC Companies' submission in response to these requirements is included herein.

Paragraph 17

We require each LEC that files ARMIS data to calculate its actual interstate BFP revenue requirement for calendar years 1991-1996 and associated tariff years (beginning with the 1991-1992 tariff year) using data from ARMIS report 43-01, columns k and m. ... We also require each price cap LEC to submit its projected BFP revenue requirements filed in each year's TRP since tariff year 1991-92. ... LECs are, therefore, required to explain fully any significant differences between each annual BFP revenue requirement projection and the LEC's actual BFP revenue requirement. For purposes of this request, a difference will be classified as significant by comparing the projected year-to-year percentage change in BFP revenue requirements with the actual year-to-year percentage change. A difference will be considered significant if the projected percentage change is greater than or less than 10 percent of the percentage change actually realized. For example, if a LEC's BFP revenue requirement actually increases by 3 percent, and the LEC projects that its BFP revenue requirement will grow by more than 3.3 percent or less than 2.7 percent, we will classify these projections as significantly different. Additionally, LECs are required to explain fully any patterns of significant and consistent over- or under-estimation of their BFP revenue requirements that may emerge.

Southwestern Bell Response

**Summary of Data Submitted**

The Commission requires LECs to submit actual interstate BFP revenue requirements for Calendar years 1991 through 1996 and associated tariff years starting with the 1991-1992 tariff year and ending with the 1996-1997 tariff year. *Worksheet 1* summarizes the calendar year data and *Worksheet 2* summarizes the tariff period data. The revenue requirements were developed pursuant to the

Commission's instructions contained in Appendix B of the Order. *Worksheet 3* compares the forecast of BFP to actuals for each tariff period. *Worksheet 3A* compares the price cap base period EUCL revenue at filed rates to base period EUCL revenue at EUCL rates that would have resulted from actual tariff period revenue requirements.

### **Explanation of Significant Differences between Actual Revenue Requirement and Projection**

As shown on *Worksheet 3*, differences from actual amounts for SWBT's forecasts range from -3 % to -10 % for the tariff years analyzed. However, as shown on *Worksheet 3A*, the actual price cap base period EUCL/CCL revenue effect caused by the disparity between actual and forecasted tariff period revenue requirements is less than 1% for all periods except the 1992-93 period where the difference is 3.34%. These differences are significantly less than the revenue requirement differences because of the \$3.50 and \$6.00 EUCL caps for these years. These differences result in a more accurate measure of the EUCL/CCL rate/revenue effect of the actual/forecast deviations. Reasons for the differences are: 1) Actual expenses were incurred or realized that were not reflected in the budget data used for SWBT's BFP forecast; and 2) SWBT's BFP forecast did not reflect separations study changes that were implemented subsequent to the preparation of SWBT's forecast.

SWBT's budget process, the process upon which the BFP forecast has been based, is an ongoing process. Internal budget data is prepared on a calendar year basis. The annual interstate tariff filing and the related BFP forecast present unique circumstances in that the filings are made on a split-year basis. BFP costs and budget data must be assembled for a July to June time frame which requires information from two separate budget years. Typically, the first half of the tariff period, July through December, is available from budget data that is "committed" or finalized in SWBT's budget process.

Data for the second half of the tariff period, January through June is not final in the “commitment” budget process and is subject to change. This budget data must be estimated from what is available in SWBT’s budget process. Nevertheless, this is the best available data at the time SWBT makes its annual tariff filing. A substantial amount of changes to budget data may occur after SWBT submits its annual filing, especially for the second half of the tariff period. For the historic period under review in the Order, there were several expense items incurred that were not reflected in SWBT’s budget data. These unanticipated items are discussed in more detail below under the years they caused fluctuations.

SWBT performs ongoing separations studies which impact BFP costs. The major studies that impact these costs are the Cable and Wire Study and the Circuit Equipment Study. These studies are utilized to categorize facility investment between loop and trunk related costs. They also are used to identify private line and special access related costs. The studies directly impact relative percentages of costs assigned to loop and ultimately the interstate BFP revenue requirement. These studies are currently updated on a monthly basis. However, prior to August 1993 the Cable and Wire Study was generally updated on a biannual basis. The Circuit Equipment study has been performed monthly since 1989. In preparing SWBT’s BFP forecast, the latest available calendar year data was used for the categorization of costs between loop and trunk. For example, 1991 calendar year data was used to estimate loop and trunk costs for the July 1992 through June 1993 tariff period. In this case, any studies introduced in 1992 or 1993 would not be reflected in SWBT’s forecast. These studies typically have increased the level of costs assigned to loop and BFP. Associated impacts are provided below for the years they caused fluctuations.



### **Explanation of Fluctuations for Tariff Periods**

#### **1991-1992:**

The forecast was approximately \$23 million or 3.3 percent less than actual for this tariff period. This difference is primarily attributed to an underestimate of BFP net investment. This increase in net investment was due to larger investments associated with facility upgrades than projected in SWBT's forecast.

#### **1992-1993:**

The forecast was approximately \$76 million or 10.3 percent less than actual for this tariff period.

Reasons for this difference are:

- I. Cable and Wire and Circuit Equipment Studies introduced in 1992 and 1993 were not reflected in the forecast. This accounts for approximately \$40 million of the difference.
- II. Actual costs included expenses incurred for: 1) right to use fees associated with the advancement of network interconnection requirements; 2) corporate relocation costs; 3) management incentive payments; and additional costs related to the massive Midwest flood of 1993.

#### **1993-1994:**

The forecast was approximately \$22 million or 2.5 percent less than actual for this tariff period. The majority of this difference is attributable to Cable and Wire and Circuit Equipment Studies introduced in 1993 and 1994 that were not reflected in the forecast.

**1994-1995:**

The forecast was approximately \$32 million or 3.4 percent less than actual for this tariff period. Again, the majority of this difference is attributable to Cable and Wire and Circuit Equipment Studies introduced in 1994 and 1995 that were not reflected in the forecast.

**1995-1996:**

The forecast was approximately \$83 million or 8.1 percent less than actual for this tariff period.

Reasons for this difference are:

- I. Cable and Wire and Circuit Equipment Studies introduced in 1995 and 1996 were not reflected in the forecast. This accounts for approximately \$36 million of the difference.
- II. While there are no significant items that stand out, actual expenses reflected an accumulation of items that resulted in operating expenses higher than amounts reflected in the forecast.

**1996-1997:**

The forecast was approximately \$111 million or 9.8 percent less than actual for this tariff period.

Reasons for this difference are:

- I. Cable and Wire and Circuit Equipment Studies introduced in 1996 and 1997 were not reflected in the forecast. SWBT estimates that this accounts for approximately \$35 million of the difference.
- II. Depreciation expenses not reflected in the forecast caused approximately \$35 million of the difference. SWBT's forecast reflected actual approved 1996 rates. SWBT has subsequently started booking higher depreciation expense in 1997 based on higher rates that have been approved by the Commission.

III. Actual restructuring expenses associated with the Pacific Telesis/SBC merger, an event not known at the time, were not reflected in the budget.

#### **Patterns of Over and Under Estimation**

The Commission requests SWBT to explain patterns of over and under estimation. For all tariff periods, SWBT underestimated the actual BFP expense. The continual underestimation is predominantly caused by SWBT not incorporating forecasts of separations study impacts for Cable and Wire and Circuit Equipment and using budget data that reflects a conservative estimation of expenses. As explained above, SWBT's studies have been shifting costs to loop and are thereby increasing the level of investments allocated to BFP each year. Additionally, as evidenced by the historical results, actual costs typically exceed budgeted costs utilized for tariff filings.

#### **Pacific Bell Response**

Pacific submits PTCA Attachment BFP - 1 calculating actual BFP revenue requirements for calendar years 1991 through 1996 per Appendix B of the Order. Pacific submits PTCA Attachment BFP - 2 calculating actual BFP revenue requirements for tariff years 1991-92 through 1996-97. Pacific submits PTCA Attachment BFP - 3 containing its projected tariff year BFP revenue requirements for tariff years 1991-92 through 1996-97 (Col. B). Attachment BFP - 3 also compares the projected tariff year revenue requirements with the actual tariff year revenue requirements. A comparison of the growth rates per Paragraph 17 is performed.

With regard to explaining the differences in the growth rates noted on BFP - 3, it appears that the forecast generally underestimated the achieved growth rate. In the 1996-97 tariff period, there were two issues that largely contributed to the underestimate. First, as previously explained in Appendix G to Pacific's Response to the Petitions to Reject or Suspend and Investigate the 1996 Annual Tariff

Filing filed May 13, 1996, Pacific reduced its forecasted revenue requirement by \$19.87M in anticipation of RAO 20 reinstatement. However, the Commission did not adopt the the new rules for Account 4310 until nearly the end of the tariff period. Second, \$109M of expense was booked as a result of the merger with SBC Communications in 1997. The estimated impact of that issue on the 1997 BFP is \$11.4M (See Attachment BFP - 10A). These two issues account for approximately \$31M of the underestimated BFP. Even so, that would have yielded a growth rate of only +1.8% instead of -1.8%, still short of the actual growth rate of 5.3%.

In general, the comments offered by SWBT concerning (1) the greater uncertainty in the outer year's budget and (2) new cable and wire and circuit equipment basic studies being introduced after the forecast is made, apply to Pacific.

#### **Nevada Bell Response**

Nevada Bell's actual revenue requirement, calculated per Appendix B using ARMIS data as recommended by the Order, is shown on Exhibit NV-BFP-1, Line 11. Tariff year actual revenue requirement is shown on Exhibit NV-BFP-2, Line 11. An analysis of tariff year's actual vs projected is displayed on Exhibit NV-BFP-3 as shown on line 4, Column I through M. Nevada Bell did not meet the 10% of the realized percentage variance for any of the tariff years. In general, the difference between projected and actual tariff year BFP revenue requirements was due to unexpected expense overruns and the introduction of final separations studies. In 1993 Nevada Bell had an unanticipated unbudgeted Early Retirement Offering that resulted in approximately \$681K additional BFP revenue requirement. In 1996, Nevada Bell had unbudgeted expenses for asbestos removal, a state rate case and local competition, resulting in approximately \$475K additional BFP revenue requirement. As the full impact of the 1996 Telecommunications Act unfolds, costs are driven up beyond anticipated

levels. In 1997, Nevada Bell experienced a flood that added approximately \$52K additional BFP revenue requirement. A budget or forecast is always subject to unforeseen events. Growth in demand continues to outpace projections resulting in increased service requirements that entail higher wages and salaries than forecasted.

Paragraph 19

We also require LECs to provide adjusted BFP revenue requirement data for calendar years 1991-1996 in order to explain differences in LECs' actual BFP revenue requirements between calendar years 1991-1996. Accordingly, we require price cap LECs subject to this investigation to develop calendar year BFP revenue requirement series that are adjusted for the effect that changes in Commission rules had on actual BFP revenue requirements. As explained in more detail below, in fulfilling this requirement, each price cap LEC must submit an itemized list of each change in Commission rules that affected BFP revenue requirements, including (a) the date each change became effective and its impact on the BFP revenue requirement for the calendar year in which the changed rule became effective, measured in dollars; and (b) the LEC's actual BFP revenue requirements, adjusted for all such changes in Commission rules for calendar years 1991-96, reported in two series as described below.

Paragraph 20

For each change in the Commission's rules that became effective on or before December 31, 1996, and that affected the LEC's BFP revenue requirement, we require each LEC to identify the change, state its effective date, and calculate the effect, in dollars, that the change had on its BFP revenue requirement. We also require the LEC to calculate the effect that each rule change would have had on BFP revenue requirements in previous years, back to 1991, had the revised rule then been in effect. For example, effective July 1, 1993, the Commission revised the rules governing the LECs' allocation of interstate costs associated with General Support Facilities (GSF). This change in rules increased costs allocated to BFP, and thus increased BFP revenue requirements. In order to compare BFP revenue requirements over the years, we require LECs to calculate the impact the change in allocation of GSF costs would have had on BFP revenue requirements in 1991, 1992, and the first half of 1993, if the revised rule had been in effect during those years. For changes that became effective after December 31, 1996, LECs must submit data that show the effect, in dollars, that these changes had on projected BFP revenue requirements prepared for their annual access tariff revisions filed to become effective July 1, 1997.

**Southwestern Bell Response**

The Commission requests that LECs provide an itemized list of each change in Commission Rules that affected BFP revenue requirements. Table 1 summarizes impacts of Commission Rule changes that occurred from 1991 through 1993 and the impact on the BFP revenue requirement for the calendar year the rule became effective. There were no rule change impacts from 1994 through 1996, thus, there are no corresponding columns indicated on Table 1.

Table 1 Annual Revenue Requirement Impact of FCC Rule Changes  
1991 through 1996

Rule Change	Effective Date	1991 Impact	1992 Impact	1993 Impact
GSF	7/1/93	-	-	\$ 47.1M
SPF	*	(\$6.1M)	(\$3.1M)	-
DEM	*	\$1.1 M	\$0.4M	-

\* Changed annually from 1991 through 1993.

Table 2 summarizes the rule changes, effective subsequent to December 31, 1996, that impacted SWBT's projected 1997-1998 BFP requirements. The table indicates, as requested by the Commission, the impact on the projected BFP revenue requirement.

Table 2 - Impact of FCC Rule Changes  
Subsequent to December 31, 1996

Rule Change	Effective Date	Impact on Projected BFP
OPEB 4310	4/30/97	(\$17M)
OB&C	5/1/97	\$1.2M
Pay Telephone	4/15/97	\$18.3M

### **Pacific Bell Response**

Pacific submits data on the following changes in the Commission's rules:

Part 36.125	DEM Transition	Changed annually 1991 through 1993
Part 36.154	SPF Transition	Changed annually 1991 through 1993
Part 69.307	GSF Allocation	Effective July 1, 1993
RAO 20	Account 4310/OPEB	Effective 1993, rescinded 1995

Pacific submits PTCA Attachment BFP - 4 calculating the impact of the SPF Transition on the BFP revenue requirements for 1991 and 1992. Pacific submits PTCA Attachment BFP - 5 calculating the impact of the DEM Transition on the BFP revenue requirements for 1991 and 1992.

PTCA Attachments BFP - 6 through BFP - 8 collectively calculate the GSF impact in accordance with the requirements of Appendix B of the Designation Order. PTCA Attachment BFP - 6 summarizes the impact of the GSF allocation change on the 1991, 1992, and 1993 BFP revenue requirements. PTCA Attachments BFP -7 and BFP - 8 calculate the impact on BFP revenue requirement with the GSF rule change in effect for twelve months and zero months, respectively. PTCA Attachment BFP - 9 calculates the impact of RAO 20/OPEB on the BFP revenue requirements for 1993 and 1994. (ARMIS data submitted for 1995 and 1996 reflect the rescission of RAO 20 and need not be restated.)

Post-December 1996 changes are included in the response to Paragraph 26 describing the development of the 1997-98 BFP forecast.

### **Nevada Bell Response**

Nevada Bell included in the Series 1 adjustments impacts due to the rule changes for GSF, SPF and DEM. Workpapers developing these adjustments are included as Exhibits NV-BFP-5, 6, and 7,

respectively. Series 2 workpapers adjusted for OPEB and rule changes occurring after 12/31/96 are included as Exhibits NV-BFP-8 and 9 respectively.

**Paragraph 22**

After determining the effect that changes in the Commission's rules had on their BFP revenue requirements, LECs must report the calculation of their adjusted BFP revenue requirements for the calendar years 1991-1996 in two series as follows. The first series must be adjusted for (1) changes to the allocation of GSF expenses; (2) the phase-in of the SPF and DEM separations allocation rule changes; and (3) revision of the allocation of Other Billing and Collection expenses to reflect a five percent allocation to the common line revenue requirement, if the LEC has not consistently allocated five percent of these expenses to the common line revenue requirement in the past. The second series must be adjusted for all changes to the Commission's rules identified above. These series must be constructed to allow for year-to-year comparisons of BFP revenue requirements. These BFP revenue requirements must be calculated in a manner consistent with the Commission's rules on December 31, 1996.

**Southwestern Bell Response**

Worksheet 4 summarizes BFP revenue requirements and adjustments for calendar years 1991 through 1996. These revenue requirements were calculated pursuant to the instructions contained in Appendix B of the Designation Order. Worksheet 1 shows the detailed calculation and underlying components of the revenue requirements. Pursuant to the Designation Order, two series are shown on Worksheet 4. The first reflects adjustments for GSF, SPF, and DEM. Calculation of these adjustment amounts is shown on Worksheet 5. SWBT did not make adjustments for OB&C, since its allocation to Common Line was 5% from 1991 through 1996. The second series shown on Worksheet 4 reflects the previous adjustments and adjustments for Account 4310 associated with OPEBs. SWBT's ARMIS data for 1994, 1995 and 1996 were adjusted to remove the OPEB 4310 impact reported in those years. Additionally, for 1993 SWBT adjusted for the initial OPEB expense impact that was realized from implementation of FAS106. This adjustment was considered in



calculating the percentage growth from 1992 to 1993. FAS106 related OPEB expenses are reflected in subsequent years and do not require adjustments. Calculation of adjustment amounts for OPEB are shown on Worksheet 6.

#### **Pacific Bell Response**

Pacific submits PTCA Attachment BFP -10 which displays adjusted revenue requirements in two series. The first series, displayed on Line 5, adjusts for the SPF and DEM transitions and the GSF rule change. The second series, displayed on Line 7, further adjusts for RAO 20/OPEB.

#### **Nevada Bell Response**

Nevada Bell's Exhibit NV-BFP-4 displays the Series 1 and 2 adjustments. Series 1 did not have an adjustment for OB&C since 1991 through 1996 had a 5% allocation to Common Line. The year-over-year growth calculation has been included in the exhibit on line 9. Additionally, one time occurrences affecting the trend have been made on line 10 with the final year-over-year growth displayed on line 12.

#### **Paragraph 23**

We intend to use these data to compare BFP revenue requirements in a consistent manner on a year-to-year basis. In their submissions, LECs must file all data underlying their computed revenue requirements, and must fully explain the data assumptions and methodology used to compute the BFP revenue requirement and projections and to adjust the revenue requirements for changes in Commission rules. This documentation shall include an explanation of all calculations, including a list of all equations used, and an explanation of the methodology used to compute the actual revenue requirements.

#### **SBC Companies' Response**

The actual BFP revenue requirement for each year was calculated in accordance with Appendix B of the Designation Order. The only exception is that for average net investment, the actual value

displayed on the fourth quarter ARMIS 43-01 was used since it already represents the cumulative average for the year. There is no need to average quarterly average net investment numbers to arrive at the annual average, since it is already available on the 43-01.

The assumptions and methodologies used to compute the adjustments to the BFP revenue requirements are as follows:

SPF Transition: The exogenous cost change used in the 1992 filing was used as a base to calculate the impacts on 1991 and 1992. That exogenous cost change calculated the difference between the 1991-92 and 1992-93 tariff year SPF values. The SBC Companies assumed that the cost change in the 1993 tariff filing was comparable to that experienced in 1991 and 1992. The 1992 revenue requirement was adjusted by an amount equal to the exogenous cost change in the 1993 filing. The 1991 revenue requirement was adjusted by an amount two times the exogenous cost change in the 1993 filing because 1991 was two transition years away from the end of the transition in 1993. See PTCA Attachment BFP - 4, SWBT Worksheet 5, and Nevada Bell NV-BFP-6.

DEM Transition: The exogenous cost change used in the 1992 filing was used as a base to calculate the impacts on 1991 and 1992. That exogenous cost change calculated the difference between the 1991-92 and 1992-93 tariff year DEM transition values. The SBC Companies assumed that the cost change in the 1993 tariff filing was comparable to that experienced in 1991 and 1992. The 1992 revenue requirement was adjusted by an amount equal to two thirds of the exogenous cost change in the 1993 filing,. The 1991 revenue requirement was adjusted by an amount two times the exogenous cost change in the 1993 filing. See PTCA Attachment BFP - 5 and related footnotes for further explanation, SWBT Worksheet 5, and Nevada Bell NV-BFP-7.

GSF Allocation: The exogenous cost change for GSF was calculated in accordance with Appendix B of the Designation Order. PTCA Attachment BFP - 7 calculates the impact on 1993 from changing the GSF allocator to be in effect for twelve months instead of six. For Pacific Bell, data from the ARMIS 43-04 is used in this calculation. The allocation factor is adjusted to add half of Category 1 Message Cable & Wire Facilities (C&WF). (Since the rule was effective July 1, the existing allocator already includes one half of the Category 1 Message C&WF investment.) The impact on the direct allocations and other allocators follows.

Similarly, PTCA Attachment BFP - 8 calculates the impact on 1993 from changing the GSF allocator to be in effect for zero months instead of six. In this case, the allocation factor is adjusted to exclude half of Category 1 Message C&WF. Again, the impact on the direct allocations and other allocators follows.

The revenue requirements with and without the GSF rule change are carried forward to the PTCA Attachment BFP-6 where the changes for 1991, 1992 and 1993 are developed in accordance with Appendix B.

SWBT's GSF input to development was developed in a manner similar to Pacific and is shown on Worksheet 5.

For Nevada Bell, the GSF adjustment was calculated in accordance with Appendix B by calculating two BFP revenue requirements for calendar year 1993. First, the 1993 Part 36/69 separations model was run with 12 months of the new GSF allocator. This revenue requirement calculation is presented on Exhibit NV-BFP-5A. Next, the 1993 Part 36/69 separations model was run with zero months of the new GSF allocator. It contained the previous year's method for the GSF allocator. The revenue

requirement calculation is presented on Exhibit NV-BFP-5B. Exhibit NV-BFP-5 utilizes these results and calculates the GSF impact to 1993, 1992 and 1991.

OPEB (RAO 20): For Pacific Bell, amounts in Account 4310 related to OPEB were obtained from internal accounting records. Ratios of Account 4310 apportioned to Interstate BFP to Subject to Separations were developed from internal records and ARMIS data. Those ratios were applied to the Account 4310 OPEB amounts by year. Return and tax allowances were then computed in order to calculate the 1993 and 1994 revenue requirement impacts of the RAO 20 rescission. See PTCA Attachment BFP - 9. Nevada Bell's impacts are shown on NV-BFP-8. SWBT's Worksheet 6 shows the development of 4310 OPEB impacts for SWBT.

#### Paragraph 24

We also require these LECs to explain in detail any relatively "large" year-to-year changes that emerge in each adjusted series of actual BFP revenue requirements. ... We, therefore, require each LEC to identify actual BFP revenue requirements that appear to be outliers, and furnish an explanation for the deviations. At a minimum, LECs are required to justify inclusion of BFP revenue requirements that are associated with the highest and the lowest percentage changes in BFP revenue requirements for the 1991-1996 period by showing that these results reflect a change in the BFP revenue requirement trend that is likely to continue over time. If, on the other hand, a particular percentage change is the result of a one-time event or other isolated occurrence, the LECs must explain the event and its impact, and calculate their BFP revenue requirements excluding the effects of the event.

#### Southwestern Bell Response

Percentage changes in the adjusted BFP revenue requirements year-over-year are shown on Worksheet 4, Line 10. The second series data which has been adjusted for significant one-time events, discussed above, represents what could be the basis for a historical trend. As shown on Line 10 of Worksheet 4, the percentage growth year over year ranges from 3.45 percent to 9.56 percent. For 1994 and 1995 the percentage changes of 3.45% and 9.56% appear to be outliers. The

percentage growths for the other three years range from 5.37% to 6.9%, and are relatively consistent.

Major reasons for the year-to-year fluctuations are indicated below.

**1992 versus 1991:**

After adjustments, the 1992 growth over 1991 is 5.4% or approximately \$41 million. Approximately \$30 million of this amount is related to the introduction of new studies for Cable and Wire and Circuit Equipment in 1992. The remaining growth primarily reflects costs associated with additional loop-related facilities placed in service. In 1992 cable and wire facilities investments increased by 3.1% over 1991 and circuit equipment facilities increased by 4.5% over 1992.

**1993 versus 1992:**

After adjustments, the 1993 growth over 1992 is 6.9% or approximately \$56 million. Approximately \$22 million of this amount is related to the introduction of new studies for Cable and Wire and Circuit Equipment in 1993. Additional expenses were incurred in 1992 related to repairs for Midwest flooding. SWBT also realized expenses associated with restructuring. The remaining growth primarily reflects costs associated with additional loop-related facilities placed in service. In 1993 cable and wire facilities investments increased by 3.6% over 1992 and circuit equipment facilities increased by 7.5% over 1992.

**1994 versus 1993:**

After adjustments, the 1994 growth over 1993 is 3.4% or approximately \$31 million. Approximately \$25 million of this amount is related to the introduction of new studies for Cable and Wire and Circuit Equipment in 1994. The remaining growth primarily reflects costs associated with additional loop-related facilities placed in service. In 1994 cable and wire facilities investments increased by 3.7%

over 1993 and circuit equipment facilities increased by 9.8% over 1993. A portion of this increase was offset by curtailed expense growth.

**1995 versus 1994:**

After adjustments, the 1995 growth over 1994 is 9.56% or approximately \$89 million. Approximately \$21 million of this amount is related to the introduction of new studies for Cable and Wire and Circuit Equipment in 1995. 1995 operating expenses increased over 1994. In 1995 SWBT used higher rates of depreciation than those used in 1994. Annual depreciation accruals increased by approximately \$70 million. The estimated BFP portion is approximately \$8 million. SWBT also realized additional expenses in 1995 due to accelerated infrastructure enhancements. The remaining growth primarily reflects costs associated with additional loop-related facilities placed in service. In 1995 cable and wire facilities investments increased by 3.6% over 1994 and circuit equipment facilities increased by 9.8% over 1994.

**1996 versus 1995:**

After adjustments, the 1996 growth over 1995 is 5.73% or approximately \$58 million. Approximately \$30 million of this amount is related to the introduction of a new Circuit Equipment Studies in 1996. In 1996 SWBT used higher rates of depreciation than those used in 1995. Annual depreciation accruals increased by approximately \$127 million. The estimated BFP portion is approximately \$15 million. The remaining growth primarily reflects costs associated with additional loop-related facilities placed in service. In 1995 circuit equipment facilities increased by 6.3% over 1994. There was not a substantial change in cable and wire facility investments.

**Pacific Bell Response**

On PTCA Attachment BFP - 10A, Pacific identifies several one-time or unusual expense bookings made over the past six and one half years. The issues include SFAS 88, SFAS 112, restructure reserve bookings and their associated SFAS 106 curtailment loss, an early retirement offer and the merger related bookings referred to in response to Paragraph 17 above. The impact of those issues on the actual BFP revenue requirement is estimated on BFP - 10A by applying a ratio of Interstate BFP to Subject to Separations expense less depreciation. The second series of adjusted revenue requirements is brought forward from BFP - 10 and further adjusted by the issues cited on BFP -10A. Year over year comparisons are made for the adjusted series. The average percent change for the period (the average of Line 17 on BFP - 10A) is 1.9% as compared with 2.3% before making the adjustments (the average of Line 11 on BFP - 10).

**Nevada Bell Response**

Nevada Bell has adjusted the actual revenue requirement for 1993 to remove the one time expense associated with the Early Retirement Offering. The total company expense was \$6,400,000. The BFP portion was calculated by applying the BFP revenue requirement percent of total company revenue requirement as calculated in Nevada Bell's Part 36/69 separations model.  $\$6,400,000 \times .106445$  equaled \$681,000. The removal of \$681,000 can be seen on Exhibit NV-BFP-4, line 10. This adjustment smoothed the 1993 and 1994 percentage growth.

**Paragraph 25**

The small number of observations for each LEC makes a simple trend analysis ineffective when the data used for this analysis reflect one-time events. We therefore seek information on alternative methods to forecast BFP revenue requirements. For example, we could include all LECs' BFP revenue requirements from 1991-1996 in the analysis by pooling these BFP revenue requirements into a single data set. We

could then determine the average trend in the industry, or identify changes in BFP revenue requirements that are outliers. By pooling the data, we would increase the number of observations, making statistical methods more reliable. Alternatively, we could examine each LEC individually and use either the average percentage change or the median percentage change to forecast its BFP revenue requirement. We seek comment on these methodologies and on any possible alternative methods to forecast BFP revenue requirements.

### **SBC Companies' Response**

#### **Alternative Methods for BFP Forecasting**

The Commission requests comments on alternative methods to forecast BFP revenue requirements. The Commission suggests pooling all LEC revenue requirements in a single set to develop an average trend for the industry.<sup>3</sup> Alternatively, the Commission suggests that each LEC could be examined individually and either the average percentage change or the median percentage change could be used to forecast its BFP revenue requirement. The SBC Companies support the use of individual LEC data for setting percentages to apply for BFP forecasts. The individual data would more closely reflect an LEC's actual costs, instead of average LEC costs. A LEC may not wish to reflect average industry growth, especially if it has worked to lower its costs by amounts greater than industry averages. Using an average growth rate could penalize certain LECs. Use of a historical trend is just as reasonable an approach for forecasting BFP as any other. Historical trending would simplify the SBC Companies' forecasting process for BFP and is consistent with Commission goals to streamline the regulatory process. However, in addition, it is crucial to include impacts for any one time or significant known events that will occur during the forecast tariff period, such as Commission rule changes.

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<sup>3</sup> Designation Order at para. 25.



Paragraph 26

All price cap LECs must explain and document fully the data, assumptions, and methodology used to derive BFP revenue requirement projections contained in the price cap LEC's access tariff revisions filed to become effective July 1, 1997. Each price cap LEC must also explain whether its projection is consistent with the historical pattern. If the LEC believes that its projection is consistent with the historical pattern, it must explain in detail this conclusion and its basis. If a LEC projection is not consistent with the historical trend, the LEC must fully explain its reasons for the deviation from the historical pattern. All worksheets used to derive projections for the 1997-98 tariff year should be filed both electronically, in a format compatible with EXCEL 4.0, and as a hard copy. Supporting worksheets must include an explanation of all calculations, including a list of all equations used.

Paragraph 29

The second group of carriers states that they estimated costs using either a "bottoms-up" approach or a model. We require that these carriers fully explain their methodology and provide us with detailed information regarding the factors underlying the projection, and the weight given to each factor. ... Carriers that followed this approach must submit information that documents the source of their final BFP revenue requirement projections, including worksheets displaying any statistical analysis supporting their projections, and must also file any underlying estimates incorporated into the final projections. We also require these carriers to explain the basis for their conclusion that this method produces results that are at least as accurate as projections developed using historical trends.

**Southwestern Bell Response**

**SWBT Forecast Methodology**

SWBT consistently has employed the "bottoms up" approach for preparing its BFP forecasts. Under this approach, SWBT obtains tariff period budget data for regulated operations and processes it through its Part 36 and 69 cost allocation process. SWBT utilizes a model, Interstate Cost Allocation System (ICAS), which performs the Part 36 and 69 cost allocations. Budget data is input on a subject to separations basis for investments, reserves, expenses, and other taxes. Separations factors used represent 1996 actual data. However, the separations factor for other billing and collection was